

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 290 - HB 854

March 18, 2013

SUMMARY OF BILL: Excludes medical imaging equipment, including, but not limited to, magnetic resonance imaging, computed tomography, and positron emission tomography equipment from the definition of major medical equipment. Exempts magnetic resonance imaging (MRI) and positron emission tomography (PET) equipment from certificate of need requirements.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$45,700

Increase State Expenditures – Exceeds \$1,166,700

Increase Federal Expenditures – Exceeds \$1,041,900

Increase Local Expenditures – Exceeds \$54,700*

Assumptions:

- According to the Health Services and Development Agency, application fees for projects including MRI and PET totaled \$125,471 in FY10-11 and \$62,992 in FY11-12. Of those projects, \$60,000 of the 2011 application fees and \$37,000 of the 2012 application fees would have been received even if PET and MRI were excluded from certificate of need requirements.
- It is estimated that state revenue from application fees will decrease an average of at least \$45,732 $[(\$125,471 - \$60,000) + (\$62,992 - \$37,000) / 2 \text{ years}]$ as a result of eliminating certificate of need requirements for the imaging equipment covered by the bill.
- A study completed on the Ford Motor Company's expenditures for Magnetic Resonance Imaging (MRI) indicates that MRI utilization and per capita expenses were at least ten percent lower in states that had adopted a certificate of need process. Similar per capita cost variations were evident for hospital inpatient and outpatient utilization and for coronary artery bypass surgery. The lowest cost areas were in states with a certificate of need program while the higher cost areas were not subject to certificate of need.
- According to a 2012 GAO study, the use of MRI and CT services increased more among self-referring providers than other providers.
- It is estimated that, as a result of this bill, per capita expenses will increase by five percent.

- According to the Bureau of TennCare, \$31,815,144 was expended in FY11-12 for MRI and PET scans.
- It is estimated that TennCare expenditures will increase by at least \$1,590,757 each year due to elimination of certificate of need regulation of MRI and PET services.
- Of the \$1,590,757, \$548,811 will be state funds at a 34.5 percent rate and \$1,041,946 will be federal funds at a 65.5 percent match rate.
- According to the Department of Finance and Administration, Benefits Administration, approximately \$21,870,761 in medical imaging costs were experienced in FY11-12.
- It is estimated that costs will increase at least five percent resulting in \$1,093,538 in increased costs.
- According to the Department there are six funds in a united group benefit that will be impacted by this legislation: State Active, State Retired, Local Education Active, Local Education Retired, Local Government Active, and Local Government Retired. Although the percentages will fluctuate based on changing membership, based on January 2013 fund membership, the allocation is estimated to be as follows (with rounded percentages and minimum dollar amounts):
 - State Active - \$492,092 (.45 x \$1,093,538);
 - State Retired - \$54,677 (.05 x \$1,093,538);
 - Local Education Active - \$393,674 (.36 x \$1,093,538);
 - Local Education Retired - \$43,742 (.04 x \$1,093,538);
 - Local Government Active - \$98,418 (.09 x \$1,093,538); and
 - Local Government Retired - \$10,935 (.01 x \$1,093,538).
- According to the Department, the state funds a percentage of premiums for the State Active and Retired plans. The state share is 80 percent. The state share of the premium costs is estimated to be at least \$437,415 [.80 x (\$492,092 + \$54,677)].
- According to the Department, the state funds a percentage of premiums for the Local Education Active and Local Education Retired plans. The Local Education plans are populated by both instructional and support staff employees. The state share of the premium costs for instructional employees is 45 percent and for support staff employees is 30 percent. Instructional employees are estimated to be 75 percent and support staff 25 percent of the plans. The state share of premium costs is estimated to be \$147,628 {.45 x [.75 x (\$393,674 + \$43,742)]} for instructional employees and \$32,806 {.30 x [.25 x (\$393,674 + 43,742)]} for support staff employees. The total cost of the state share for Local Education premium costs is estimated to be at least \$180,434.
- The total increase in local expenditures will depend on the share of the premiums or direct cash contribution paid by local governments. The average contribution is unknown and contribution rates range up to 100 percent. It is assumed that on average local governments will cover at least 50 percent of the cost resulting in an increase in local expenditures which exceeds \$54,677 [(\$98,418 + \$10,935) x .50].
- The total increase in state expenditures is estimated to be at least \$1,166,660 (\$548,811 + \$437,415 + \$180,434).
- According to the Department of Health, the bill will not affect the number of inspections conducted because the facilities inspected under current law will be inspected under the provisions of the bill. The fiscal impact of the legislation on the Department will be not significant.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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